



**FAIR SHARE  
ENHANCED DELINQUENT TAX  
COLLECTIONS UPDATE**

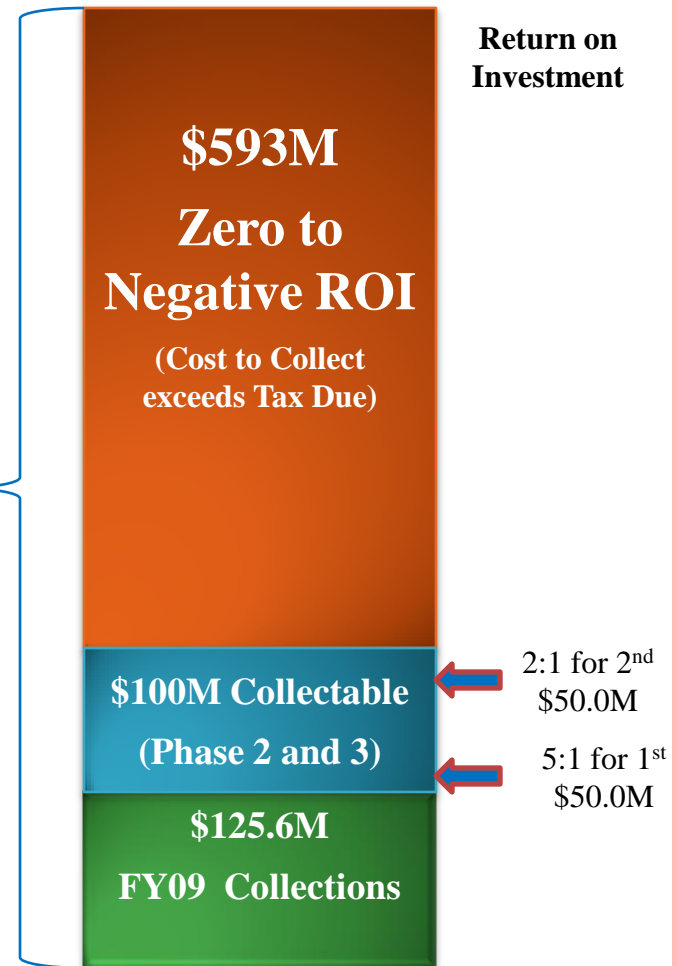
**REVENUE STABILIZATION & TAX  
POLICY COMMITTEE  
SEPTEMBER 14, 2009**

**Rick Homans, Cabinet Secretary  
Phillip Salazar, Audit & Compliance Division Director**

# NEW MEXICO'S TAX GAP

- “Tax Gap”: Difference between what is legally owed & what is voluntarily paid
- IRS Study – Federal tax gap approximately 15%
- NM Tax gap estimated to be \$818.6M annually,
- Additional resources needed to increase collections & compliance, thereby reducing tax gap

New  
Mexico  
Tax Gap  
\$818.6M



Note: Total annual collections in FY09 were \$218.9M, of which \$125.6M was tax tap collections

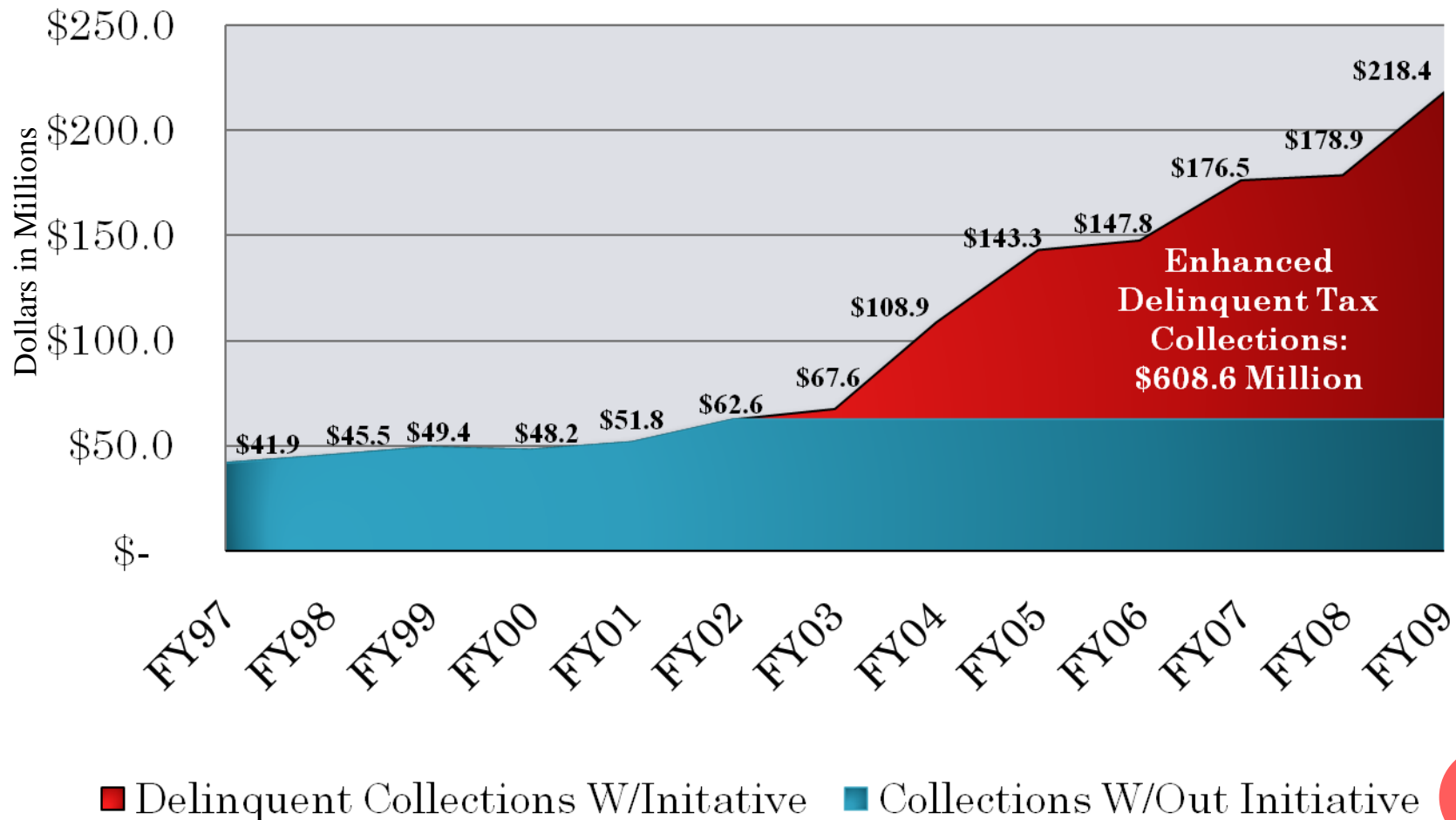
# NEW MEXICO'S "TAX GAP" INITIATIVE (2003-2009) – PHASE 1 ACTIONS

- Created a call center to increase collection efforts (10 FTE's)
- Created a desk audit unit for credit reviews (7 FTE's)
- Implemented a "best practice" training for staff
- Expanded audit coverage to smaller tax programs (10 FTE's)
- Increased the overall number of auditors and collectors (63 FTE's)
- Posted Delinquent Taxpayer List on the website
- Provided Department of Workforce Solutions data to TRD collectors for wage levies
- Started using private collection agencies
- Expanded number of CRS workshops from 91 to 99 each year
- Started to provide 21 CRS workshops in Spanish each year
- Started multiple industry projects which generated new revenue
- Implemented the Treasury Offset Program which offsets federal income tax refunds to state income tax debt
- Implemented employee retention strategies
- Expanded the Bankruptcy Unit to ensure claims filed timely and post petition debt pursued
- Implemented a data warehouse to enhance audits and collections

# TAXATION & REVENUE DEPARTMENT

## DELINQUENT COLLECTIONS

### FY1997 – FY2009



General Fund Collections Approximately 72%  
 Local Governments and other agencies (i.e. DOT) Approximately 28%

## PHASE 2: FAIR SHARE INITIATIVE

- Funded in 2009 Legislative Session for additional delinquent tax collections
  - \$5.1M in recurring costs
    - Funded from both General Fund and Admin Fee from Counties & Municipalities
  - \$2.3M in non-recurring costs
  - Funding for 82 FTE (Auditors, Collectors, and IT Support)
- FY10 ROI: \$29.2M, \$21.3M in General Fund
- FY11 ROI: \$44.4M, \$32.3M in General Fund

# FAIR SHARE INITIATIVE FUNDING

	Total Costs	Status
Audit – 24 FTE	\$1,593.0	91.7%
<ul style="list-style-type: none"> <li>•Additional CIT audit coverage</li> <li>•Staff for additional business tape match projects</li> <li>•Data warehouse staff for audit selection and analysis</li> </ul>		
Collections – 34 FTE	\$1,870.4	97%
<ul style="list-style-type: none"> <li>•Staff for additional PIT tape match projects</li> <li>•Levy team to consolidate actions</li> </ul>		
Refund/Credit Reviews – 9 FTE	\$560.3	100%
<ul style="list-style-type: none"> <li>•Expand the types of business credits reviewed</li> <li>•Increase the number of credit and refund requests reviewed</li> </ul>		
ITD Support – 15 FTE	\$1120.7	40%
<ul style="list-style-type: none"> <li>•Staff for data warehouse and Gentax projects</li> <li>•Desk top and network support</li> <li>•Business analysis of project methodologies</li> </ul>		
Hardware/Software Upgrades	\$2,227.0	10%
	(Non-Recurring)	
<ul style="list-style-type: none"> <li>•Collections and Bankruptcy module upgrades in Gentax</li> <li>•Data warehouse upgrades- new data loads and projects</li> <li>•IBML Scanner for data capture of income documents with PIT returns</li> </ul>		

# WHAT TRD IS DOING TO ENSURE TAXPAYER COMPLIANCE

## **Audit Activity:**

- Make audit selection more efficient
  - Add new data sources to the data warehouse
  - Use scoring when comparing multiple data sources to identify discrepancies
  - Assign audit candidates based on systematic analysis of scoring
- Implement new matching projects for desk audits
  - Compare 1099s issued by DFA to income reported to TRD
  - Use income documents to identify taxpayers owing gross receipts tax
  - Ensure vendors pay taxes due when providing services to film industry
- Promote managed audits (more info on this program later)
- Increase Corporate Income Tax coverage by implementing desk audits
- Pursue Multi-State Tax Commission leads of taxpayers doing business in NM but who are not registered with TRD
- Pursue contractors who over claim deductions for tangibles on projects funded by Industrial Revenue Bonds
- Pursue taxpayers using the governmental entity rate code rather than the correct rate code that would include local option taxes

# WHAT TRD IS DOING TO ENSURE TAXPAYER COMPLIANCE

## Collection Activity:

- Data warehouse upgrades will allow collectors to
  - Use income documents to identify taxpayers that owe personal income tax
  - Use various data sources for skip tracing and levy sources
- Consolidate levy actions to be more efficient when serving bank and wage levies
- Collection functionality upgrade will allow
  - collectors to be more efficient by seeing a consolidated view of all debt associated with a taxpayer
  - implement payment plans across tax programs
- Bankruptcy upgrade will ensure
  - collectors do not pursue debt covered by bankruptcy
  - timely court filings when needed
  - immediate flagging of bankruptcy cases in our processing system rather than waiting to process paper documents mailed to TRD
- Better desktop and network support by the Information Technology Division will ensure less down time and more efficient use of hardware and software



# WHAT TRD IS DOING TO ENSURE TAXPAYER COMPLIANCE

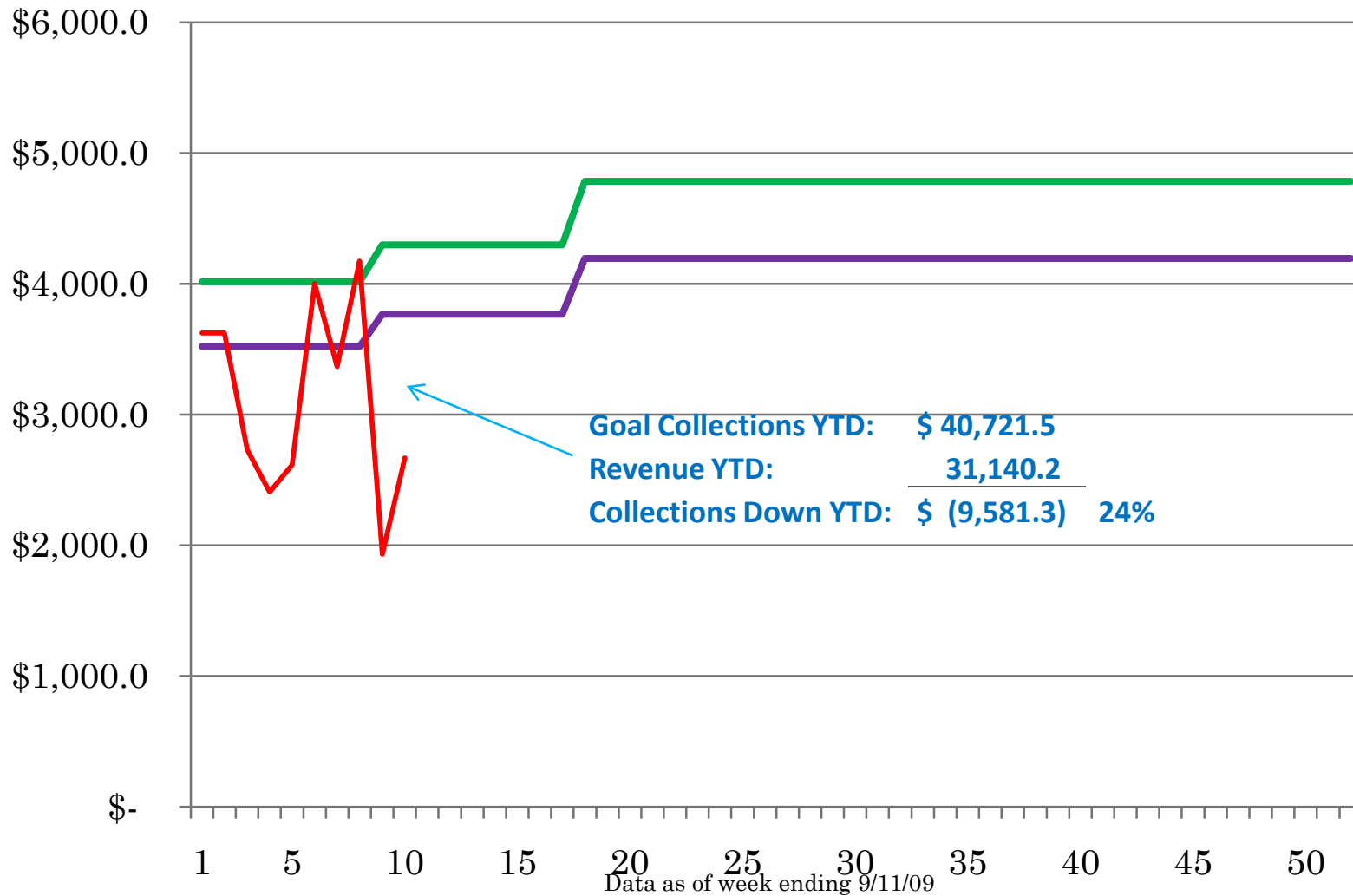
## **Refund/Credit Reviews:**

- Fully reviewing two additional credits – High Wage and Advanced Energy
- Created a Film Credit Unit in Santa Fe to increase customer service and decrease the amount of time it takes to review credit requests
- Working directly with the film office to develop training for the audit staff
- Assigned two auditors full time to following up on leads developed from the review of film credits
- Working with Revenue Processing to expand the number of credits that will be reviewed
- Hired an additional team of auditors in Albuquerque to review credits and work Managed Audits
- Working to receive information electronically from taxpayers to utilize the data warehouse to assist in preventing duplicate credits from being allowed

# TRENDS AND CHALLENGES

- Trends: Projected FY10 results:
  - Bankruptcies expected to increase by 52% in FY10
    - Up 174% from FY07
  - 28% payment plans to default,
    - Compared to 14% in FY09
  - Requests for payment plans up 90%
  - Fewer refund and credit requests and denials
    - Denied \$18.6M in FY09 compared to projected \$7.5M in FY10
  - CIT collections expected to be down 33%, PIT 13%
- Challenges:
  - Economy is reducing sales and cash flow
  - Taxpayers seeing TRD as financial institution - taxes collected used for other debt
  - Fewer payoffs due to banks restricting loans
  - More requests for payment plans, but with no down payment
  - Working with taxpayers after they default a payment agreement
  - More businesses closing doors
  - Some taxpayers indicating they may default their managed audit agreement

# FY10 DELINQUENT TAX COLLECTIONS



— Weekly Collections Goal

— Baseline Collections Goal

— Actual Collections

General Fund Collections Approximately 72%  
Local Governments and other agencies (i.e. DOT) Approximately 28%

# WHAT IS THE MANAGED AUDIT PROGRAM

- The Managed Audit Program is designed to promote compliance and to benefit taxpayers who discover a past filing obligation and liability that has not been reported or discharged.
- The program is intended to allow a taxpayer and the Department to coordinate a self-review by the taxpayer for many of the programs the Department currently administers.
- A taxpayer may choose to review their records alone or with the guidance of a Department Auditor
- If a taxpayer finds that taxes are owed, they can pay the tax without paying penalty or interest due as long as the entire tax due is paid within 180 days of assessment.
- Acceptance into the Managed Audit Program is not automatic; taxpayers must apply and meet certain eligibility requirements:
  - Have not already been selected for audit
  - Not currently being pursued in collections
  - Demonstrate a willingness and ability to comply with NM tax laws
  - Demonstrate acceptable system of internal controls & business records
  - Have not been the subject of a criminal investigation
  - Not already in a legal dispute with the department over the taxability of their transactions
  - Taxpayer has not received more than two non-filer notices
  - Managed audits do not apply to outstanding liabilities
  - Outstanding liabilities are paid prior to requesting a managed audit agreement

# MANAGED AUDIT PROMOTION

- Editorials for newspapers
- Highlight the program on the TRD website
- Add description of program to the front of the CRS-1 Filers Kits
- Add a managed audit presentation to CRS new business workshops
- Managed Audit Program flyer summarizing the program for distribution
- Promote short term payment arrangements for managed audit assessments to ensure payment of penalty and interest will not 'kick in' for non-payment
- Provide information to professional organizations

# EXAMPLES – HOW MANAGED AUDIT PROGRAM HAS HELPED TAXPAYERS

- Business owner became ill and fell behind on his gross receipts, withholding, and workers' compensation taxes. His son entered Managed Audit Program to bring his father into compliance prior to his father's death. Managed Audit was completed prior to the owner's demise, and granted the family closure at a difficult time.
- Multiple caretaker recipients of Child Care Assistance Funds from CYFD were unaware that these payments were subject to gross receipts tax. The Department offered Managed Audits to several of these providers and will be educating recipients through informational handouts, including information on managed audits.
- Business owner experienced embezzlement of collected gross receipts taxes by employee. Managed Audit allowed company to come back into voluntary compliance while minimizing the effects of the theft.

# HOW TRD WORKS WITH TAXPAYERS WHO CANNOT PAY

- Removing requirement to provide financial statements and/or loan application with lending institutions
- Allowing more flexibility in repayment methods
  - Escalating payments, fluctuating payments for seasonal businesses, and plans with balloon payments
- Working with taxpayers to bring agreements current prior to defaulting agreement
- Reduce amount of wage levies if taxpayer proposes an acceptable alternative repayment amount
- Consideration of temporary hardship status for taxpayers who demonstrate they do not currently have the ability to pay their tax obligations.

## SUMMARY

The Fair Share Initiative objective is to ascertain that ALL taxpayers pay their fair share of taxes to support State and Local Government operations as well as New Mexico Schools.

TRD recognizes that current economic conditions are negatively impacting the ability of many taxpayers to meet this objective. As a result, TRD has modified the way we deal with delinquent taxpayers to offer more options and flexibility.

TRD continues to strive to meet the annual collection goal by reviewing and revising priorities and collection strategies. However current economic conditions and year-to-date results indicate it will be difficult to meet the FY10 delinquent tax collection expectations.